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SENSITIVE
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TAGS: [ECIN](#) [ECON](#) [EINV](#) [PGOV](#) [PREL](#) [SY](#)
SUBJECT: SYRIA SEEKING MARKET QUALITY SOLUTIONS AT FIXED
PRICES TO SOLVE ELECTRICITY SHORTAGES

Summary

11. (SBU) Deputy Minister of Electricity Hisham Mashfejj reviewed with us Syria's significant power generation problems and his ministry's continuing efforts to cobble together short-term solutions. Mashfejj acknowledged electricity generated from renewable resources and energy conservation were the key to Syria's meeting increasing demands for electricity and for developing an infrastructure capable of sustaining economic expansion. He said Syria needed to establish a transparent procurement process to lure investors for private-public partnerships in order to fund needed expansion in all areas of power generation. Mashfejj also disclosed Syria had received a \$350,000 grant from the IAEA to finance a nuclear power plant feasibility study. End summary.

12. (U) On December 7, embassy staff called on Hisham Mashfejj, Deputy Minister of Electricity and Director General of the Public Establishment for Electricity Generation and Transmission (PEEGT) at his office in the Ministry of Electricity. Munzer Ahmad, an officer from the Americas Department at the Syrian Ministry of Foreign Affairs also attended the meeting. The meeting was apolitical in tone and Mr. Mashfejj was cordial and candid.

Syria Focused on Meeting Electricity Demand

13. (U) Mashfejj said Syria's current maximum installed electricity generation capability was 8,000 MW (1,500 MW of which is hydro-electric), with an actual average production capability of about 6,700 MW-7,000 MW against a peak demand for electricity of about 7,200 MW. To meet this demand, Syria operated eleven power generation plants plus three hydro-electric power plants. Because of the substantial infrastructure required for new power plants, the SARG was currently focusing on expanding existing plants and replacing old, inefficient turbines and with new state-of-the-art equipment. Mashfejj acknowledged it was inevitable the SARG would have to construct new plants in the future and was

looking at building an expandable, 750 MW power generation plant in Dayr al-Zawr. Mashfejj said Syrian power plants ran on natural gas, fuel oil or dual capability natural gas/fuel oil.

¶4. (U) Mashfejj noted 12-15 percent of power generation capability was lost due to aging equipment, maintenance, and low water levels. He explained that high summer temperatures decreased the efficiency of power generation plants by another 10-15 percent. Hydro-electric power production was also an issue in summer due to decreased water levels in the Euphrates River. Mashfejj said up to 20 percent of Syria's total generated electricity came from the three hydro-electric plants, but these plants were only used during peak summer hours to supply supplemental power. Mashfejj admitted rolling blackouts would continue in the winter and summer, but said PEEGT had not established set schedules for these blackouts.

Regional Sources

¶5. (U) According to Mashfejj, Syria was involved in a seven-country grid connection project with Lebanon, Jordan, Iraq, Turkey, Egypt and Libya. He said the grid connections with Lebanon, Jordan, Egypt and Libya (through Egypt) were completed. He added work was currently underway to connect Dayr al-Zawr with the Iraqi grid: this connection would enable Syria to connect with the Gulf States. The Syrian and Turkey grids were connected but not yet synchronized, he said. Mashfejj asserted that Turkey was focused on its grid

connection with Europe and planned to activate its grid connection with Syria after that project was completed (NFI).

According to Mashfejj, Syria imported and exported electricity through its international grid connections and for the past two years had been a net exporter.

Public Utility, Private Financing

¶6. (U) Mashfejj asserted the SARG intended to keep electricity transmission in the hands of the public sector but was opening up power generation to the private sector and to public-private partnerships (PPP). He said a new law on private electricity generation was almost ready for review and then submission to the Parliament.

¶7. (U) Mashfejj acknowledged PEEGT's lack of experience in conducting open competition procurements was an obstacle to implementing PPP projects. PEEGT had commissioned the International Finance Corporation (IFC) to conduct the procurements for the initial PPP projects and develop procedures for PEEGT to generate and evaluate tenders. He said the goal was to ensure transparency throughout the procurement process. Mashfejj told us the first independent power project (IPP), a 250-350 MW power plant to operate on natural gas/fuel oil at Nasriyeh (near Damascus), had already been announced and that five companies applied for the Request for Qualification (RFQ). Under the terms of the RFQ, PEEGT will be required to supply the needed fuel to operate the plant and to buy all the electricity generated by the plant. This project will be a build-operate-transfer (BOT) plant with an operation period of 20-25 years.

¶8. (U) Mashfejj said the SARG financed most power projects in Syria via long-term loans from the European Investment Bank (EIB), the Arab Fund for Economic and Social Development (AFESD), the Islamic Fund, and the Abu Dhabi Fund for Development (ADFD). The government used its own funds to cover any gaps, he said. Mashfejj cautioned that the EIB had rejected financing any projects deemed "harmful to the environment." Japan, he added, had financed past projects and the Export-Import (EXIM) Bank of India provided financing for the Tishreen power plant expansion project managed by India's Bharat Heavy Electricity Limited Company (BHEL).

Mashfejj said Syria was also looking at funding opportunities from major equipment suppliers such as Siemens as financing options.

19. (U) According to Mashfejj, there was local investor interest in PPP projects. The newly established Syrian-Qatari Investment Group was interested in establishing electricity generation projects; Cham Holding Company had formed a new joint venture, named "Marafeq," with the Kuwaiti al-Khurafi Group, and intended to bid on IPP projects.

Need for Renewable-Resource Power

110. (U) Mashfejj said the SARG had an ambitious goal to use a combination of renewable energy and energy conservation to cover 27 percent of electricity demand by 2020. By then peak demand for electricity in Syria would reach 12,000 MW, based on a seven to nine percent annual growth rate, he said.

111. (U) PEEGT had recently announced two wind farm projects, one in Damascus and a second in Homs, and other projects were under consideration. Companies from Turkey, Greece and Egypt had already requested the RFQs for the two initial projects, boding well for future private-sector interest. Mashfejj said surveys to determine production potential were underway at both sites with each site expected to have a capacity of 50-100 MW. PEEGT had 15 additional wind measurement stations scattered throughout Syria in search of potential future wind farm sites. PEEGT was also looking for outside assistance to

run the vendor selection process for these two wind farm projects, and Mashfejj anticipated seeking World Bank assistance in meetings in mid-December.

112. (U) Mashfejj asserted solar energy was another strategic solution for overcoming Syria's electricity shortfalls. Mashfejj said joint venture Solaric, owned 30 percent by PEEGT, 40 percent by the Ministry of Industry and 30 percent by a Ukrainian company which will provide the technology, would produce photovoltaic cells. Solaric expected to begin cell production during the first quarter of 2010. Mashfejj explained Solaric would produce solar panels for use by the SARG to establish its own solar power production facilities and for sale to private industry for commercial use and PPP projects. Solaric would also focus on the production of solar water heaters.

Nuclear Power Feasibility Study

113. (U) When asked about the SARG's plans for the use of atomic energy, Mashfejj told us the IAEA had given Syria a \$350,000 grant to finance a nuclear power plant feasibility study. Indicating concern about nuclear power, Mashfejj opined that costs and safety issues outweighed the benefits of this method of power generation, in spite of the large-scale use of nuclear power in countries like France.

Private Power Generation Plants

114. (U) According to Mashfejj, some large manufacturers were now considering establishing their own power generation plants to supply their facilities, and the SARG planned to buy their surplus power. He would not estimate the price of buying the surplus, but commented the private sector sought a 20 percent profit margin. Higher costs would adversely affect Syria's ability to provide electricity at subsidized prices, he said. Prior to entering any agreements, Mashfejj planned first to consult with other, especially neighboring, countries on their experiences with private electricity producers. Mashfejj said he presently had no clear vision about the future relationship between PEEGT and the private sector in terms of purchasing privately produced electricity,

but was carefully studying this alternative.

Ministry of Electricity Restructuring

¶15. (U) Mashfejj said a new electricity law being drafted would, among other thing, restructure the Ministry of Electricity and create two new departments at the PEEGT: a Public-Private Partnerships Department and a Renewable Energy Department. The staff for these two departments was currently receiving training in Jordan. In the future, PEEGT would sell electricity to the Public Establishment for Electricity Distribution and Transmission (PEEDT) at cost and PEEDT would then sell electricity to consumers at the established subsidized price. This would allow the SARG to keep the subsidy limited to one entity (the PEEDT) to help control the cost of the subsidies. Mashfejj told us PEEGT employed 11,000 people but the total number of people employed by the Ministry of Electricity was about 40,000. He complained that over-employment and a shortage of skilled labor within the ministry were a problem.

Comment

¶16. (SBU) Although it took a month to arrange the meeting with the Deputy Minister by dipnote, our initial exchange was notable for its positive and candid tone. Mashfejj pulled no punches in presenting the challenges facing Syria. Rolling blackouts remain an everyday occurrence during times of peak demand in winter and summer, and shortfalls in electricity generation will grow to as much as 1,800 MW by 2012. Ambitious power generation expansion plans and forays into solar and wind power production can only be achieved with a large influx of foreign investment via private-public partnerships. Public discontent with unreliable electricity supplies, coupled with a strong opposition to paying higher prices for power in the future, leave Syria's electric utility authorities in a dilemma that can be managed, but probably within constraints that will make power generation a continuing challenge.

HUNTER